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BRIEF TO THE PROVINCE OF ONTARIO 1989-90 TRANSFER PAYMENT ANNOUNCEMENT

THE ASSOCIATION OF MUNICIPALITIES OF ONTARIO
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ASSOCIATION OF MUNICIPALITIES OF ONTARIO

The Association of Municipalities of Ontario is a non-partisan voluntary organization united to promote the values of the municipal government system and the status of the municipal level of government as a vital and essential component of the total inter-governmental framework of Ontario and Canada.

The Association acts as the collective voice of Ontario's municipal governments and is organized to accomplish through cooperation and coordination, what the majority have neither the time nor the resources to do individually.

The Association represents some seven hundred (700) municipal governments throughout Ontario. The governing body is composed of some eighty (80) municipal elected and appointed officials, who in turn represent a wide-range of municipal government interests.

The following Sections and affiliated municipal professional associations form an important part of the Association's structure and therefore, play an important part in its activities in terms of the Board of Directors, program and policy development:

Association Sections

* County and Regional Section
* Large Urban Section
* Northern Ontario Section (FONOM/NOMA)
* Rural Section (ROMA)
* Small Urban Section (OSUM)

Association Affiliates:

* Association of Municipal Clerks and Treasurers of Ontario
* Association of Municipal Tax Collectors of Ontario
* Municipal Engineers Association
* Ontario Municipal Administrators Association
* Ontario Municipal Personnel Association
* Ontario Municipal Social Services Association
* Society of Directors of Municipal Recreation of Ontario
* Urban Finance Officers Association of Ontario

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This brief was presented to the Honourable Robert Nixon, Treasurer of Ontario and the Honourable John Eakins, Minister of Municipal Affairs at a meeting with AMO officials, on January 19, 1989. The report was subsequently forwarded to all Members of the Provincial Legislature.

I. PREFACE

Prior to proceeding with its comments to the Government of Ontario regarding the recent 1989-90 transfer payments announcement, the Association would like to preface its discussion with the following extracts from recent government documents and statements.

The Honourable Robert Nixon, Treasurer of Ontario in his Statement to the Legislature regarding 1989-90 transfer payments, December 12, 1988.

> *"Unconditional grants will be funded at $871 million again next year, and municipal road assistance will also be maintained at the $678 million level.*
>
> *The financial position of our municipal sector has strengthened in recent years and I believe that these allocations are realistic and in keeping with changing priorities. To fund local priority activities and projects beyond these levels, many municipalities will choose to raise additional funds from local financing sources."*

"Economic Outlook and Fiscal Review, Ontario 1988", published in December 1988 by the Ministry of Treasury and Economics

> *"As a group municipalities are in a better position than the Province with respect to their debt burdens. "Debt" includes total long term debt and sewer and water project debt. In 1987, total municipal own-purpose debt was approximately $3 billion, or about 26 per cent of total annual revenues. By comparison, total Provincial own-purpose debt was 114 per cent of annual budgetary revenue."*

The Honourable John Eakins, Minister of Municipal Affairs, in his December 1988 communications to municipalities reporting their 1989 unconditional grant allocation:

> *"As the Treasurer has indicated, the Province is in a period of financial restraint. It is therefore extremely important that provincial tax dollars are allocated in such a way as to support provincial priorities.*
>
> *For that reason, increases in funding to municipalities this year have been directed into conditional grant programs to meet specific needs the provincial government believes are most important.*
>
> *My Ministry has been allocated $871 million to be paid in the form of unconditional grants - the same as was paid last year. Each municipality will receive the same amount received on 1988."*

II. PROVINCIAL-MUNICIPAL RELATIONS

The Association of Municipalities of Ontario regards the 1989-90 Transfer Payments Announcement by the Treasurer of Ontario and the Minister of Municipal Affairs as a fundamental policy change which not only impacts provincial-municipal finance, but also provincial-municipal relations. The partnership approach to the effective delivery of programs and services to the citizens of Ontario appears to be lost.

The Association notes with great concern that support to the Unconditional Grant, program, one of the fundamental principles of provincial-municipal finance, has been negated by the Provincial government. The Unconditional Grant Program is the one form of financial assistance that is allocated to municipal government with no strings attached for spending on municipal government services, in accordance with local needs and priorities, as municipalities see fit.

The 1989-90 Transfer Payments Announcement of December 12, 1988 marks a significant financial policy direction of the current government. It is one in which the government has illustrated that:

- there is an obvious lack of commitment to the Unconditional Grant Program as a funding mechanism for municipal government.

- the Government appears less supportive which is municipal government as a democratically elected body, responsive to local needs and circumstances.

- there is a misunderstanding of the relationship of conditional/unconditional funding and the impact of the flat-lining of the Unconditional Grant Program at the expense of certain conditional grants.

- the Provincial government has assumed that Provincial priorities must be funded at the expense of municipal government priorities. This seems to suggest that municipal priorities are at odds with provincial directions in the intergovernmental partnership of delivering cost-shared programs and government services.

- the Province of Ontario has assumed that Provincial priorities and municipal services must be increasingly funded by the municipal revenue base, through property tax increases and user fees.

- the Government of Ontario has brought into question the basic principles of the appropriateness of the property tax base for funding programs and services which are primarily controlled and regulated by the Province, with little local flexibility and scope for municipal decision-making.

- the lack of advance notification to the municipal sector and to the Association of this significant policy direction signifies deteriorating provincial-municipal relations.

The above clearly illustrates to the Association and the municipal sector that there are some serious problems with our current provincial-municipal environment, and in particular the fiscal relationship.

Earlier in 1988 AMO addressed the Premier and Cabinet of Ontario and stated that the "provincial-municipal partnership required adjustment." The events of December 1988 suggests that the problems are more acute than suggested in AMO's 1988 Cabinet presentation.

In March 1988 AMO stated to the Premier and Cabinet that municipalities had less flexibility than ever in responding to local needs. Local governments were restricted by an unresponsive financial base and unable to react to changing government priorities and trends in their communities. New programs and new and more stringent program regulations imposed by the Provincial government made compliance and program delivery difficult without adequate funding. Therefore, AMO requested a Provincial-Municipal committee to review the transfer payment system in order to achieve fiscal reform.

By January 1989 the above review has been narrowed in its scope by the Ministries involved to an Interministerial Committee with decreased municipal participation (3 municipal committee members and 14 provincial staff members) and has been confined to a review of the conditional grant system only.

In light of these events and the apparent policy direction of the government, the Association suggests that the original concept of a provincial-municipal process for a comprehensive review of local government finance is even more essential to good intergovernmental relations in the future.

III. ZERO PER CENT INCREASE TO THE 1989 UNCONDITIONAL GRANT PROGRAM

Program Objectives

The Government of Ontario has described the primary objective of the Unconditional Grant Program as ensuring "that Ontario's municipalities have sufficient financial resources to provide the services under their jurisdiction and to reduce the impact of property tax increases on the local taxpayers" (Provincial Auditors Report, 1988). The Ministry of Municipal Affairs, in its own words, has stated that:

> "Unconditional grants, unlike other grants, are applied against general operating costs. These grants are particularly important because, more than any other grant, they may act as direct substitutes for taxes, depending on the decisions of municipal councils." ("Unconditional Grants Program," Ministry of Municipal Affairs Finance Branch, March 1988).

The following table illustrates that the Provincial government has not historically strongly supported the program objectives of the Unconditional Grant Program.

Unconditional Grant Program Increases

Year	%Increase	% Increase in Municipal Expenditures
1983	3.3	7.2
1984	4.1	7.2
1985	4.2	6.4
1986	4.4	9.1
1987	4.9	8.8
1988	5.7	-
1989	0	-

The Association wishes to voice its concerns regarding the apparent policy of the Government of allowing the Unconditional Grant Program to deteriorate. The above statistics indicate that, with the exception of 1988, the increases in funding have barely kept pace with the level of inflation and are well behind increases in municipal expenditures. In 1988, the 5.7 per cent increase was directed not for "inflationary" purposes but to implement program improvements as suggested by AMO in a joint review of the program with the Ministry of Municipal Affairs. (Programs improvements achieved were the inclusion of the police per household grant in the definition of levy base for the General Support and Northern Support Grants calculations and to improve the $3 REG ceiling.)

AMO/Ministry of Municipal Affairs Review of the Unconditional Grant Program

Over the past three years AMO has allocated considerable resources to working with the Ministry of Municipal Affairs in attempting to improve the Unconditional Grants Program. For the last two years this effort has been a fairly productive one in that AMO's recommended changes to the program for 1987 and 1988 were implemented.

Past cooperation with the provincial government has led the Association and the municipal sector to believe that the government viewed the joint review process as constructive and the program itself as a viable one. This must now be questioned.

In AMO report 88-7, "Unconditional Grants Proposal for 1989", the Association recommended that the 1989 Unconditional Grant program be increased by 11 per cent. The Association did not make this recommendation irresponsibly. Months of joint analysis with the Ministry of Municipal Affairs illustrated that in order to truly address some the inequities caused by the current distribution formulae of the program and the overall constraints on the program, an increase of approximately 5-6 per cent would be required, plus an addition for inflation. Hence AMO recommended an 11 per cent increase over the 1988 level of support. This increase is also more in keeping with recent increases in municipal expenditures. The Ministry of Municipal Affairs' latest data (1987) shows that municipal expenditures have increased by 8.8 per cent.

In its report 88-7, "Unconditional Grant Proposals for 1989", the Association also recommended that the increased allocation be directed to the General Support Grant. The General Support Grant is received by all municipalities and is therefore the most responsive and progressive component of the program.

Obviously none of the Association's recommendations were implemented in the government's decision to freeze the Unconditional Grant Program for 1989.

IMPACT OF FLAT-LINING THE UNCONDITIONAL GRANT PROGRAM

1. Program Objectives

The most fundamental impact of the decision to flat-line the Unconditional Grant Program for 1989 is that the objectives of the program as established by the government itself will not be achieved. Municipalities in Ontario will not have sufficient resources to operate local programs and services and there will be increases in property taxes and user fees to finance basic municipal services. Alternatively, some municipal councils may choose to cut back on programs and services, thereby impacting the program objectives of other conditional programs and provincial priorities.

2. Funding Shortfalls

This table represents the estimated impact of the freeze from a sample of municipalities.

Municipality	$Shortfall	% Increased to Levy
(calculations based on 5% increase)		
City of London	$1,250,000	1.1
Metropolitan Toronto	6,450,000	.84
City of Peterborough	260,000	1.5
Town of Kirkland Lake	432,259	9.4
County of Peterborough	218,000	9.4*
Regional Mun. of Durham	750,000	2.2

*** Increase to be apportionned to local municipalities.**

Notes: (These figures are based on preliminary calculations of municipal finance staff for the unconditional grant program zero per cent increase only. It therefore does not include increases in municipal expenditures resulting from increases to cost-shared programs i.e. GWA, sewer and water, transit, or municipal increases to the municipal roads assistance program. Therefore these figures are likely to be very conservative).

The above table of percentage increases attributed to the freezing of the Unconditional Grant program illustrates the wide rate of impact to the municipal sector. As well the calculations regarding the property tax base are extremely conservative, in that they do not include such matters as education levy increases or increases resulting from cost-sharing enhanced conditional grant programs.

The most obvious impact of the zero per cent increase to the 1989 Unconditional Grant program is that many municipalities will be faced with significant revenue shortfalls which must be assumed by property tax increases, user fee increases or service/program cuts.

3. Formula Distortions

The decision of the Ministry of Municipal Affairs to allocate the same dollars to municipalities as in 1988 has the effect of distorting the unconditional grant program formula and causing further "inequities" in the equalization of resources across the Province. A fundamental principle of provincial-municipal finance is that the unconditional grant program address the fiscal imbalance across the Province. This is the rationale for the Northern Support and Resources Equalization component of the program.

The zero per cent increase to the unconditional grant program and the Ministry of Municipal Affairs decision to not make formula adjustments for 1989 with their limited dollars, has caused severe formula distortion for all high growth municipalities, for those with increased expenditures, and for those with significant resource deficiencies and a high reliance on funding from the Resource Equalization component. The 1989 program therefore ignores levy changes and household increases. **These municipalities will be left even further behind in future years unless significant funding is added to the program at some future point in time, to compensate for the past "unresponsiveness" of the formula.**

4. An Uncertain Future

It is well known that the Association and the municipal sector have historically preferred unconditional funding over conditional grant programs. The recent decisions have not only affected the merits of the joint review process of the unconditional grant program with the Ministry of Municipal Affairs, but the status of future discussions regarding provincial-municipal finance. Municipalities in Ontario are now facing an uncertain future -- uncertainty regarding the future viability of the Unconditional Grants programs strikes at the very basis of the transfer payment system.

The Association requires more comprehensive information regarding the future long term direction of the Provincial government in its funding partnership with municipalities.

IV. PROVINCIAL PRIORITIES AND CONDITIONAL GRANT INCREASES

The Treasurer of Ontario stated:

> *"Transfer payments to the municipal sector in 1989-90 will total approximately $4.4 billion, which amounts to an increase of 5.4 per cent. Within the overall allocation more than $220 million in additional funds will be allocated to municipalities for priority areas. In particular, total payments to municipalities for General Welfare for individuals and families in need will increase by 10.8 per cent. In addition, the allocation for water and sewer projects will increase by 11.3 per cent, for municipal transit facilities by 11.4 per cent and for child care services provided by day nurseries by 13.9 per cent". (Statement to the Legislature, December 21, 1988)*

GENERAL WELFARE ASSISTANCE

The Minister of Community and Social Services, reported in a December 6, 1988 News Release, regarding increases in General Welfare Assistance:

> *"The first [increase] is a five per cent increase in basic rates and maximum shelter subsidies paid to social assistance recipients in Ontario, representing an increase of $92.1 million in annual spending on social assistance.*
>
> *For a sole support parent with two children on family benefits, the increase will mean their maximum monthly benefit will rise from $993 to $1,045. Maximum benefits paid to a disabled or blind couple in which both spouses are handicapped will increase from $1,302 to $1,368 a month. The increases will take effect on January first, 1989."*
>
> *Mr. Sweeney pointed out that over the last three years, the government has made a number of changes to the social assistance system, which have resulted in an average increase in benefit levels of 23.9 per cent (which does not include today's 5 per cent increase).*

The Association does not dispute the benefits to society of welfare system improvements. However, municipalities are increasingly unable to finance the "improved" system. AMO and the municipal sector are aware that the provincial-municipal partnership in the delivery and funding of social services is under review by the Provincial-Municipal Social Services Review Committee, of which AMO is a participant. The current atmosphere regarding the continued reliance on municipal revenues to cost-share program improvements, albeit legitimate improvements, make it difficult for the Association to assess the "legitimacy" of the Provincial-Municipal Social Services Review as a productive process. Also, the directives of the Minister of Community and Social Services and the Treasurer of Ontario that recommendations made by the Provincial-Municipal Social Services Review Committee

will not cost the Provincial Government additional funds has undermined the objectives of the review and the Association's confidence in the consultation process.

ROADS ASSISTANCE PROGRAM FLAT-LINED FOR 1989-90

Municipal Roads Assistance will be maintained at the 1988 level of $678 million. The Ministry of Transportation staff have reported that the Minister of Transportation advised municipalities of their specific allocations in communications dated January 6, 1989. The Ministry has distributed their limited resources using the formula of the "road needs assessment" system. Within the formula, roads maintenance will receive priority over construction requirements.

The City of Peterborough, in a recent communication to the Minister of Municipal Affairs, expressed its concerns regarding the government's decision not to increase the roads assistance program to meet even the level of inflation:

> *"the Province has always indicated that it strongly supports the need for improvements (infrastructure), but in the meantime has frozen roads grants. This seems a most certain contradiction with the Province's stated position in this area. We are now faced with the very real possibility of having to spend 100 per cent municipal dollars on our roads because of the limited provincial support in this area."*

All municipalities are facing similar situations. This is one conditional grant program which is a municipal priority, and should be a provincial priority.

SEWER AND WATER FUNDING

The Association appreciates the 11.3 per cent increase to the sewer and water program particularly in light of the Municipal Industrial Strategy for Abatement.
The Minister of Environment, the Honourable James Bradley, has stated that the costs for MISA will be "substantial" and the cost-sharing has yet to be determined. It must be stressed that AMO does not support the government's proposal of municipal enforcement of sewer use as a financially viable option for municipalities.

With respect to the current capital program AMO states that many municipalities will not be able to capitalize on the Ministry of Environment's assistance since they are already at capacity in their ability to match cost-shared dollars. The Town of Kirkland Lake, for example, has advised that they will not be able to use the 11.3% increase for sewer and water funding. Their approved grant percentage for sewer and water projects from the Ministry of Environment is 27.46% (provincial). The town must put in 72.54 cents for every additional dollar spent on sewer and water projects. Since their revenue base is down 9.6% (a loss of $432,259 in potential unconditional grant funding), the possibility of Kirkland Lake matching this funding without substantial property tax increases or service cuts in other areas is even more remote.

TRANSIT FUNDING

In June 1988, the Minister of Transportation announced additional funding to improve the availability of specialized transit services. The current eligibility criteria for specialized (disabled) transit services is under review by the government. It has been suggested that the expansion of the service to include persons who "due to functional mobility problems are physically unable to: climb or descend steps of regular public transit facilities or walk a distance of 175 metres" will increase the potential ridership by 50%. It is likely that as the government has already designated increased accessibility of transit as a government "priority" that the increase of 11.4% is for this area.

CHILDCARE

Childcare in day nurseries has had a funding increase of 13.9% over 1988. The Province of Ontario in "New Directions for Childcare" June 1987, has stated that increased accessibility to childcare and its evolution from a welfare service to a public service is a Provincial priority. Unfortunately, few municipalities will realize any financial benefit from this conditional grant program. Approximately 55 larger municipalities operate municipal childcare programs, and less than 20 rural municipalities have had the resources to match cost-shared dollars and implement the program.

COST-SHARING

Municipalities must allocate 20 per cent dollars and 50 per cent dollars for the administration of General Welfare Assistance. Daycare also requires a 20 per cent municipal contribution. Sewer and water capital projects, require 15 to 75 per cent municipal contributions and municipal transit also requires a 50 per cent municipal contribution for capital projects for the disabled.

As stated earlier in this brief, the freeze on the unconditional grant program makes it more difficult for municipalities to cost-share the conditional grant programs increases. Freezing the unconditional funding restricts the ability to match dollars in cost-sharing arrangements.

GOVERNMENT GREEN PAPER "FINANCING GROWTH-RELATED CAPITAL NEEDS"

The Association is in the process of preparing its comments to the government on their proposals to expand the lot levy field to include school capital projects. What appears counter productive in the discussion paper is the government's suggestion that the Ministry of Education's cost-sharing formula for capital assistance be revised downward from 75 per cent to 60 per cent. AMO views this as a further intensification of transferring legislated provincial costs to the municipal revenue base. An expansion of municipal concerns will be provided in the Association's response to the government green paper, at a later date.

V. CONCLUSIONS

The Association has concluded that the 1989-90 Transfer Payments Announcement is in fact a fundamental policy change which has radically changed provincial-municipal relations. The municipal sector in the past has regarded program delivery and provincial-municipal finance as a governmental partnership in which both levels of government work toward common goals for its citizens. The statement from the government that funding will now be directed to specific grant programs at the expense of the Unconditional Grant Program and the revenue base of municipalities cannot be ignored.

The Association:

1. Urges the Government of Ontario to re-assess its decisions regarding the 1989 Transfer Payment announcement.

2. Requests the Government of Ontario for more comprehensive information about the long-term direction of the provincial government in its funding partnership with municipalities.

3. Urges the establishment of a joint process for the review of local government finance and the total transfer payment system.

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